

GENERATING BIG BUSINESS FROM SMALL TRANSACTIONS

BRAZIL'S FINTECH SCENARIO AND REPORT

UNTAPPED, UNEXPLORED
WITH PROFITABLE OPPORTUNITIES



FULL REPORT





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PREFACE

The financial markets have grown and evolved since the economic crisis of 2008. The Fintech phenomena has caused disruption around digital financing and Fintechs have become progressively more mainstream. However, their popularity is concentrated in developed countries where economies are in deflation, there is less risk, and competition is fierce. But the real news is on the front pages of Brazilian newspapers and top ranked digital media, and soon, around the world. This news is setting an unexpected precedent, evident with the advent of deflationary conditions in the United States and Europe, and now with the British exit of the European Union. Which sets Brazil back to the stage for investments, however the kind of investment opportunities are not the same as in 2008 and few years later. Commodities are not worth the risk neither the returns. Turmoil caused by the mismanagement of politics put the market in debt and increased inflation. Even though institutions and the financial system proved to be some of the toughest on the world today. Justice was served and over 100 of the country's richest entrepreneurs and a number of corrupt politicians were jailed.



PREFACE



AGAINST THE ODDS, FINANCIAL INSTITUTIONS WERE MORE PROFITABLE THAN EVER. DESPITE ALL THE CHALLENGES THEY FACED, THE BRAZILIAN POPULATION WAS RESILIENT. THEY REMAINED TECH SAVVY AND WITH OVER 130 MILLION SMARTPHONES IN THEIR HANDS, THEY CHALLENGED THE STATUS QUO OF CONVENTIONAL BANKING SERVICE FEES, OVER 400% A.A. INTEREST RATES ON CREDIT CARDS, AND EXORBITANT OVERDRAFT FEES.

The combination of technology access to a vast population, outstanding number of software engineering graduates, entrepreneurial culture, high returns and untapped opportunities within the financial services arena, set the stage for a significant growth in the number of Fintechs in the last 3 years.

In this paper, Nobiletec assesses the current scenario and forecasts the state of Brazilian Fintechs and the Banking market to inform you about opportunities to engage, invest, and partner with startups. These startups provide solutions and innovations which can be replicated in other countries around the world. The current condition in Brazil, provides a unique opportunity for significant benefits and return on investment.

EXECUTIVE SUMMARY



1 BRAZILIAN FINTECH LANDSCAPE



2 GROWTH OPPORTUNITIES



3 CHALLENGES AND OBSTACLES



4 FINTECHS IN BRAZIL



5 FORECAST FOR THE MARKET

Fintech is a global phenomenon that is here to stay. The need for existing banks and financial institutions to respond to this threat and opportunity is undeniable. Many are responding in different ways, but the main figure at the table are the Fintechs. Banks, venture capitals and other financial service providers are quickly positioning themselves to set the game levels.

This phenomenon has significant impacts and implications within Brazil's monopolistic banking and financing sector. Leading to key opportunities for banks abroad and investors which outperform any other country in the world:

- Interest rates in Brazil play a major role in returns compared to all countries that are incubating Fintechs;
- Brazilian people are savvy consumers in regards to financial services, and do not trust banks anymore, with over 74% using one or more Fintechs;
- The Brazilian economy has shifted as politics have shifted, so there is a new outlook in regards to capacity of growth and stability;
- Almost 40% unbanked population, that are resistant to enter into a branch, but are in need of financial services.
- There are over 130 million smartphones at the Brazilian population. In this context, Nobiletec.com set out to uncover the Fintech scenario in Brazil, to provide investors from all over the world an outlook to how attractive the business is. As well as, to exhibit why investors should engage further and not miss out this once in a life time opportunity



CHAPTER 1

BRAZILIAN FINTECH LANDSCAPE

There are thousands of Fintechs worldwide at different levels of maturity, revenue and investments. **In Brazil alone there are roughly 150+ Fintechs established performing also on different levels and stages.** Even though local banks try to minimize the speech in regards to the presence and evolution of Fintechs in Brazil, their concerns are evident, as they know the local population adopt new technologies and financial services very quickly.

Back to 2013, Nubank, a 100% digital credit card product, using social networks for friends' referrals, was launched and reached over 100,000 cards in just a few months. In less than 6 months, they could not meet the number of applications in all parts of the country. Nubank's penetration became viral and their signature purple card became fashionable, everyone wanted one. Consumers wanted the product without knowing the institution, their intentions, the risks or the investors behind it.



There is a trend in consumer mindfulness not recognized by large banks and financial institutions. This lack of consumer mindfulness arose from the traditional bank's monopoly of the marketplace. Their high interest rates and fees became associated with a bad customer experience and lead to a lack of respect and trust from consumers. Brazil's democracy is developing along with their knowledge of the banking and financing industry around the world. Brazilian consumers are tired of being treated unfairly by the banking industry.

The banking and financing sector see the risk ahead, and many have been taking measures to prepare themselves. For example, Bradesco, the 3rd largest bank in Brazil, has sent senior teams and executives to Silicon Valley and London in order to research new digital businesses. In 2016, Bradesco began funding coworking sites in California and New York, to be in touch with the new innovations. Additionally, they created a Venture Capital in Brazil to partner with accelerators to invest in Fintechs.



CHAPTER 1

BRAZILIAN FINTECH LANDSCAPE

InovaBRA, is a program to support startups that have synergy with banking services and products. Itaú Bank, the number 1 bank in Brazil, is following the same steps, and funding a full building in São Paulo (Cubo) bringing together investors, mentors and entrepreneurs. Currently, they are hosting 42 startups, including 6 Fintechs, in addition to investing consistently in maxiPago, an ecommerce payment solution.

Caixa Economica Federal, the second largest public bank, is also looking into ways to tap this Fintech market, as they have a great demand to serve the low income unbanked population. Even though they have regulations and limitations preventing them from working with Fintechs, they have gone through regulators who just released an act that will allow public banks to join venture with IT shops, in that case in particular, Fintechs, allowing them to compete in this growing and potential market.



CHAPTER 1

BRAZILIAN FINTECH LANDSCAPE

Almost 70% of the initiatives monitored are fully operating with paying customers, with proven models, ready to take on new investments in order to scale. Three out of 10 Fintechs, have overcome the mark of BRL 1 million, and this year over 50% may also reach that mark.

Additionally, 1 out of every 5 Fintechs already have over 20 employees. Results have been consistent and have attracted investors from all over the world, 75% already have been capitalized and more than 40% received over BRL 1 million in investments. In 2015 alone, approximately BRL 200 million entered into that portfolio, with a forecast of BRL 450 million in 2016, and revenues in the range of BRL 173 million according to the Brazilian Central Bank.

B2B2C
42%

B2B
31%

B2C
27%

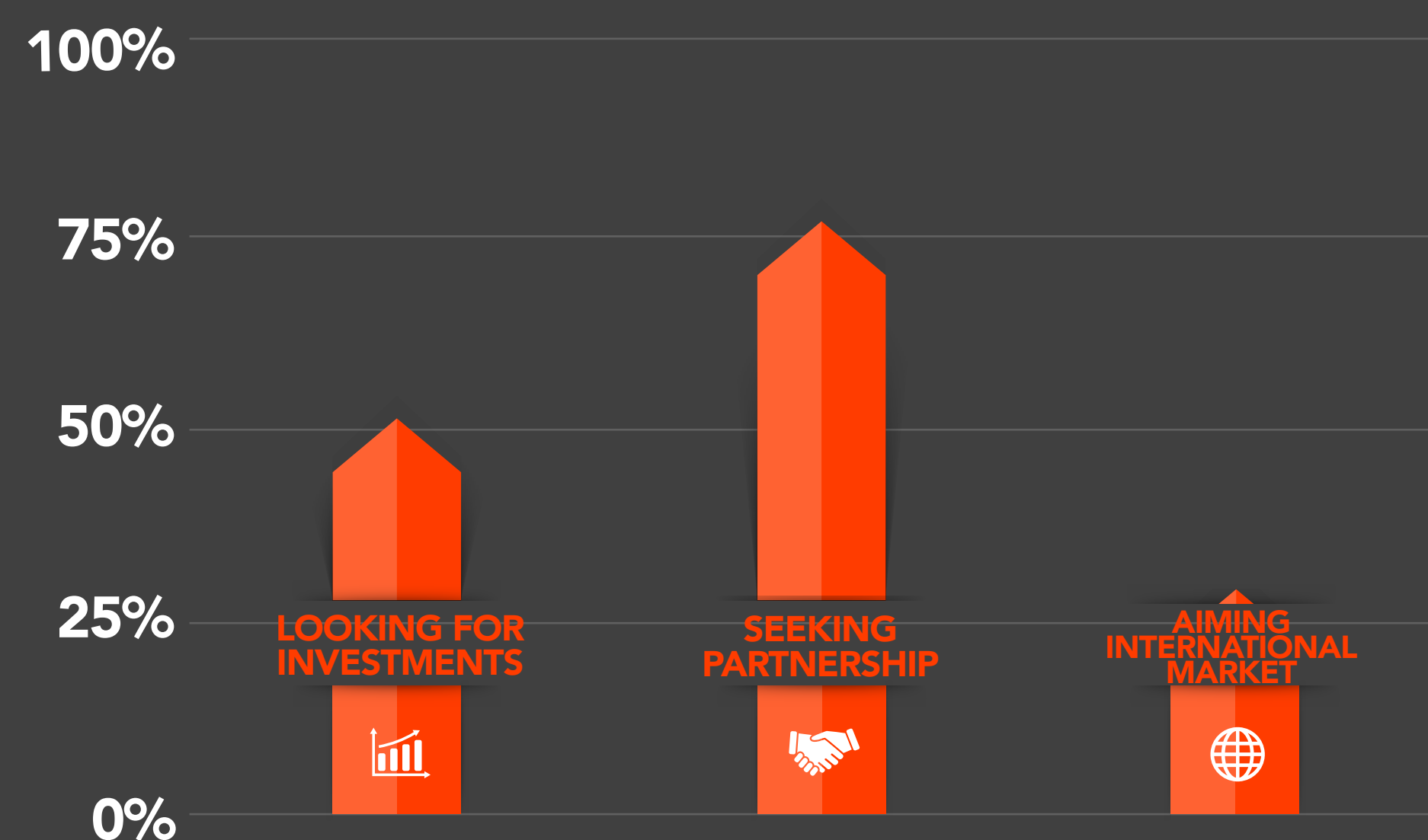
As the numbers show, 31% of the monitored Fintechs are dedicated exclusively to a B2B model, 27% support end customers and 42% are acting on both models.



CHAPTER 1

BRAZILIAN FINTECH LANDSCAPE

POSITIONING (%)



From this group of Fintechs, almost half are looking for investments, 77% are seeking partnerships and 30% are aiming to penetrate the international market. The maturity of the portfolio has clearly reached a solid level. The ecosystem across entrepreneurs, investors, partners, technology and most of all, customers seem to be in tune

in regards to expectations and actual delivery of results. Both from a user experience perspective, and by meeting market demands in price, Fintechs are becoming more and more relevant in terms of invoice and customer base.

STILL A BANKING OLIGARCHY, HOWEVER IN CHECK

The Brazilian banking system is highly consolidated as a result of significant M&A activity in the last decades. The six leading banks in the country account for 80% of the overall bank assets. Federal public banks (Banco do Brazil and Caixa Economica Federal) have maintained a solid position among the four largest banks in terms of assets over the past years, despite the emergence of large private conglomerates. The largest private banks, Bradesco and Itaú, have made considerable gains through an accelerated growth and the acquisition of foreign and domestic institutions (BBV and HSBC by Bradesco, Bank Boston by Itaú).

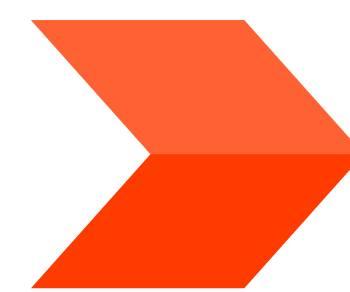


CHAPTER 1

BRAZILIAN FINTECH LANDSCAPE

The global banking, finance, insurance and capital markets are experiencing great challenges due to market slowness, low interest rates at the global average; big pressure from regulators, technology innovation and disruptive models coming from Fintechs, inability to deliver an outstanding and continued customer experience and products that meet customer's day-to-day needs. According to recent research, banks recognize that they won't be able to meet customer expectations at the pace they demand. In addition, they recognize that Fintechs are an option to tap both the regulated and innovative worlds of today's finance landscape. Even though great investments have been made into the Digital Agenda, it only proved that customer experience in those Digital Channels improved. However, this improved customer experience did not convert into an increase in revenue, new forms of income, or acquisition of additional products. It also failed to prove the retention of customers.

IN BRAZIL, THE FINANCIAL SITUATION IS BOTH VERY SIMILAR AND SOMEWHAT DIFFERENT THAN THE CURRENT SITUATION WORLDWIDE. BRAZIL POSES A UNIQUE OPPORTUNITY FOR POTENTIAL GROWTH AND HIGH INCOMES IT CAN REACH, COMPARED TO EVOLVED AND DEVELOPED COUNTRIES WHICH DO NOT SEE THE SAME OPPORTUNITY.



CHAPTER 1

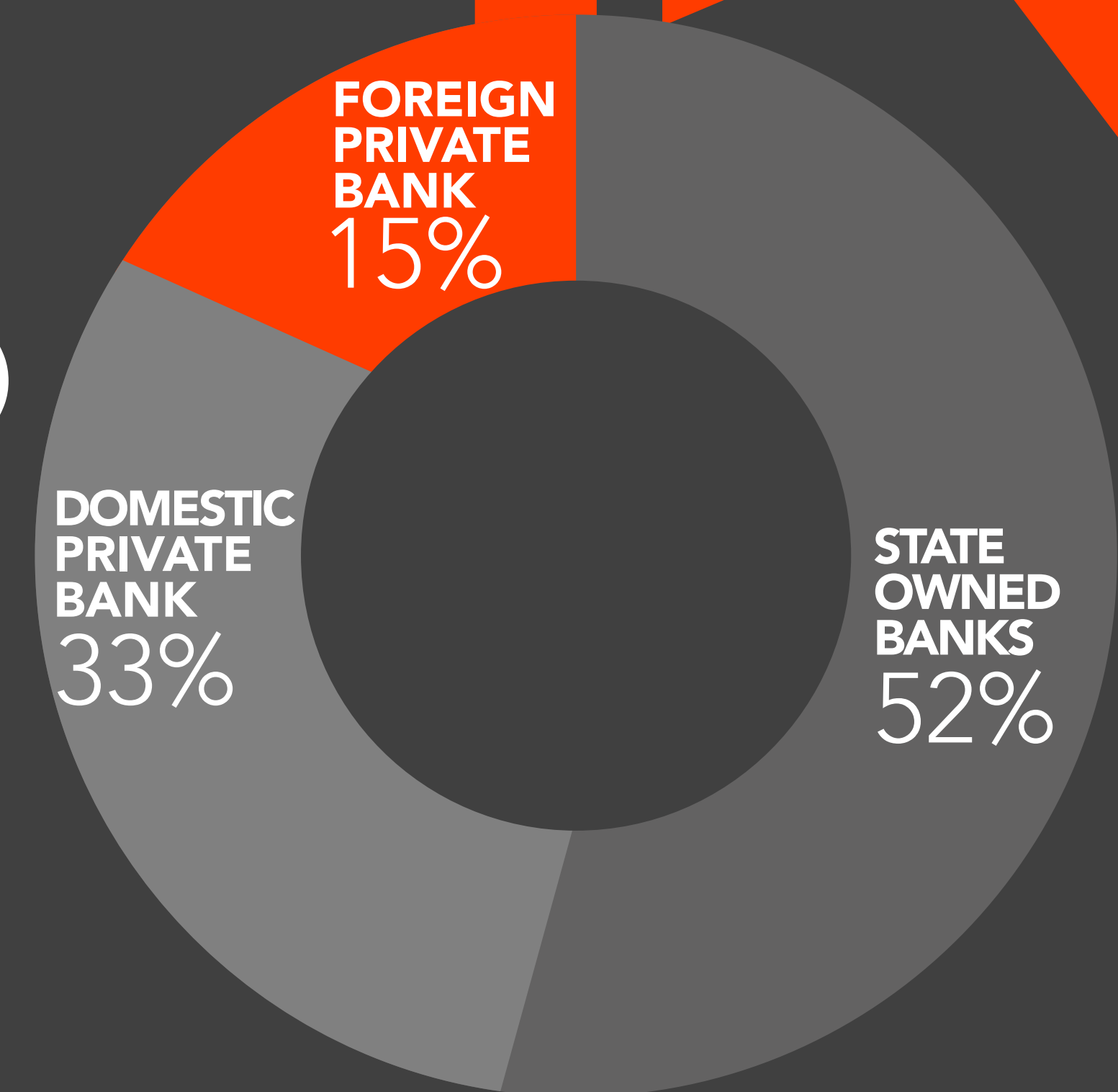
BRAZILIAN FINTECH LANDSCAPE

Brazil is faced with high interest rates, a banking monopoly, customer frustration, a small number of people have access to banking system, and lack of products that fit the market reality. On the other hand, over 60% of the population have access to smartphones. Brazil has a well engaged population with social networks and medias, with a positive trend of income in the average employee, besides a lot of unmet financial services and products.

The fact that Fintechs are only starting to catch up now, with only 150+ Fintechs established with outstanding results, gaining investments and partnerships with Brazilian and banks abroad, as well as funding from venture capitals.

Within the Fintech space, entrepreneurs and investors have been focusing on areas of products services, such as payments. However, those products and services are only scratching the surface of the huge potential of the Brazilian banking and financing market. The TOP 6 banks, 2 of which are public, hold 80% of the market share alone, in a 40% unbanked population, 85% of Brazilians live in cities and 40% remain excluded from traditional banking systems.

MARKET SHARE (%)

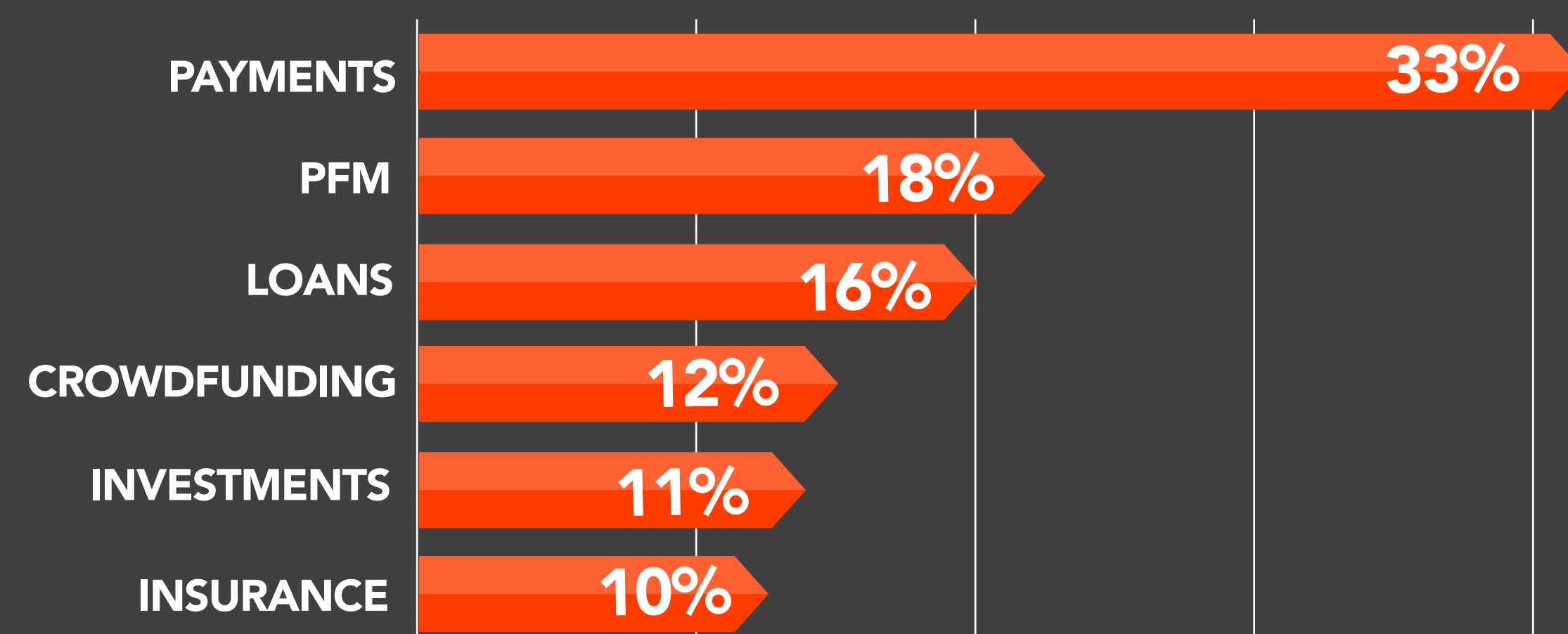


Payments are in the mainstream of interest in entrepreneurs and investors, for many reasons. First, because intermediation is an easier point of entry for them. Next, payments require a smaller investment, are less regulated and also have low fees per transaction. However, on the other hand, many payment applications are in partnership with either a banking institution or credit bureau, which hinders their ability to explore innovations and disruptions further.

CHAPTER 1

BRAZILIAN FINTECH LANDSCAPE

FINTECH AREAS



The chart illustrates areas where Fintechs are tackling the Brazilian market. As previously noted, payments take the lead, followed by Personal Financial Management. GuiaBolso has taken the 'Mint' approach into an automated way to connect to banks and get data allowing users to have all financial information in one app. Next are loans, and BankFácil has been very successful by using social media as part of their scoring in order to meet applications for small and medium loans.

Crowdfunding is growing, as investors are getting familiar with this business model, and are recognizing that it works. Investors are gaining more and more trust in this model rather than conventional bank funds. Investments Fintechs are allowing average people to learn how to invest, by applying AI and innovative tooling mechanisms for people to buy and sell. Insurance has been picking up since 2015, reaching 10% and gaining momentum like Bidu, which searches through many insurers using an easy form application process to present offers.





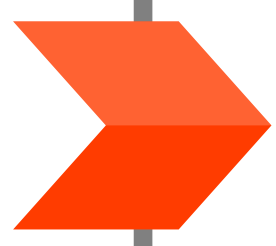
CHAPTER 2

GROWTH OPPORTUNITIES

Even though the political and economic crisis, and failures of many foreign-backed startups, have regularly filled the front pages of global newspapers, technology in Brazil continued its march forward. While Brazil's overall GDP fell 4 percent in 2015, the tech industry has been largely immune to the slowdown, growing 20 percent between 2014 and 2015, and Brazil has registered a small, but very important growth, in the first quarter of 2016.

IT JOBS AND SERVICES, AND INVESTMENT ON STARTUPS HAVE STAYED IN HIGH DEMAND, CONTRARY TO CONVENTIONAL WISDOM, VENTURE INVESTMENTS IN LATIN AMERICA HAVE ALSO CONSISTENTLY GROWN FROM THOSE HEADY DAYS, REACHING US\$594 MILLION IN 2015, UP FROM US\$ 387 MILLION IN 2012, ACCORDING TO THE LATIN AMERICAN VENTURE CAPITAL ASSOCIATION.

Surprisingly, recession-racked Brazil consumed 63 percent of the region's total investment, with the city of Sao Paulo receiving the lion's share of venture capital dollars.



The reality is that recession and political crisis created a clear divergence of fortunes among Brazil's technology companies. Many of the companies that presented at Founders Forum Brazil 2012 were plays on the emergence of Brazil's middle class. The entrepreneurs and investors were wagering that these newly empowered consumers would snap up furniture, shoes and baby supplies at record rates. Unfortunately, an economy fueled by ever-looser credit and constantly increasing government spending could not last.

However, key Fintechs overcame those odds, mostly those that offer consumers and businesses a way to improve efficiency and sustainably reduce their costs.

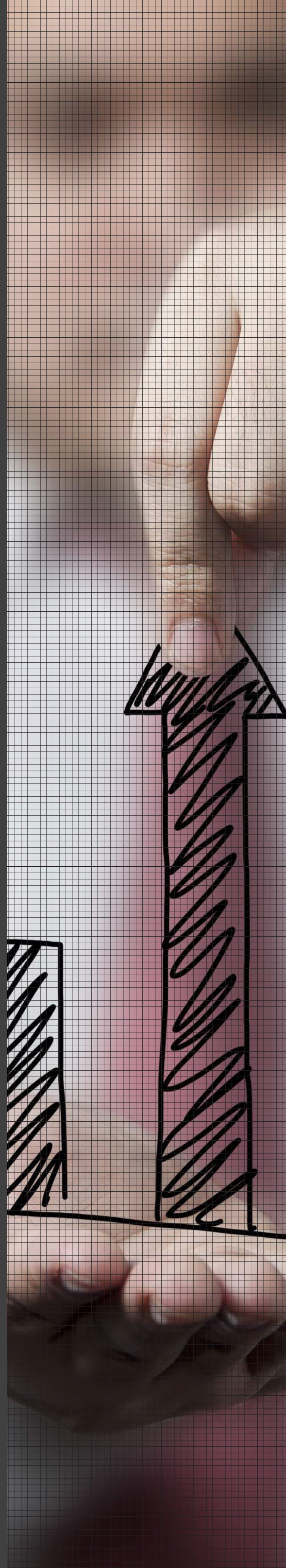
Examples include small business SaaS ERPs like ContaAzul and Omie, consumer productivity apps GuiaBolso, and companies that facilitate B2B transactions like Intelipost and Loggi. The relative lack of concern about the recession among Brazilian technology entrepreneurs was evident at the Latam Founders Network, a group made up of founders, executives and investors from across the Latin America region. Companies competed in eight categories, including B2C, Best Investor, and Most Innovative. Past winners have included Printi, Nubank and iFood, all of which went on to raise large rounds.

CHAPTER 2

GROWTH OPPORTUNITIES

Investors, too, have recognized this trend. Kaszek Ventures, one of the region's largest funds, has invested heavily in B2B and consumer finance (credit card interest rates in Brazil can pass 400 percent a year). Eight of their last 10 investments listed in CrunchBase have been in these two categories. Ditto for Redpoint e-ventures, another large fund focused on Brazil that took home this year's Investor of the Year award.

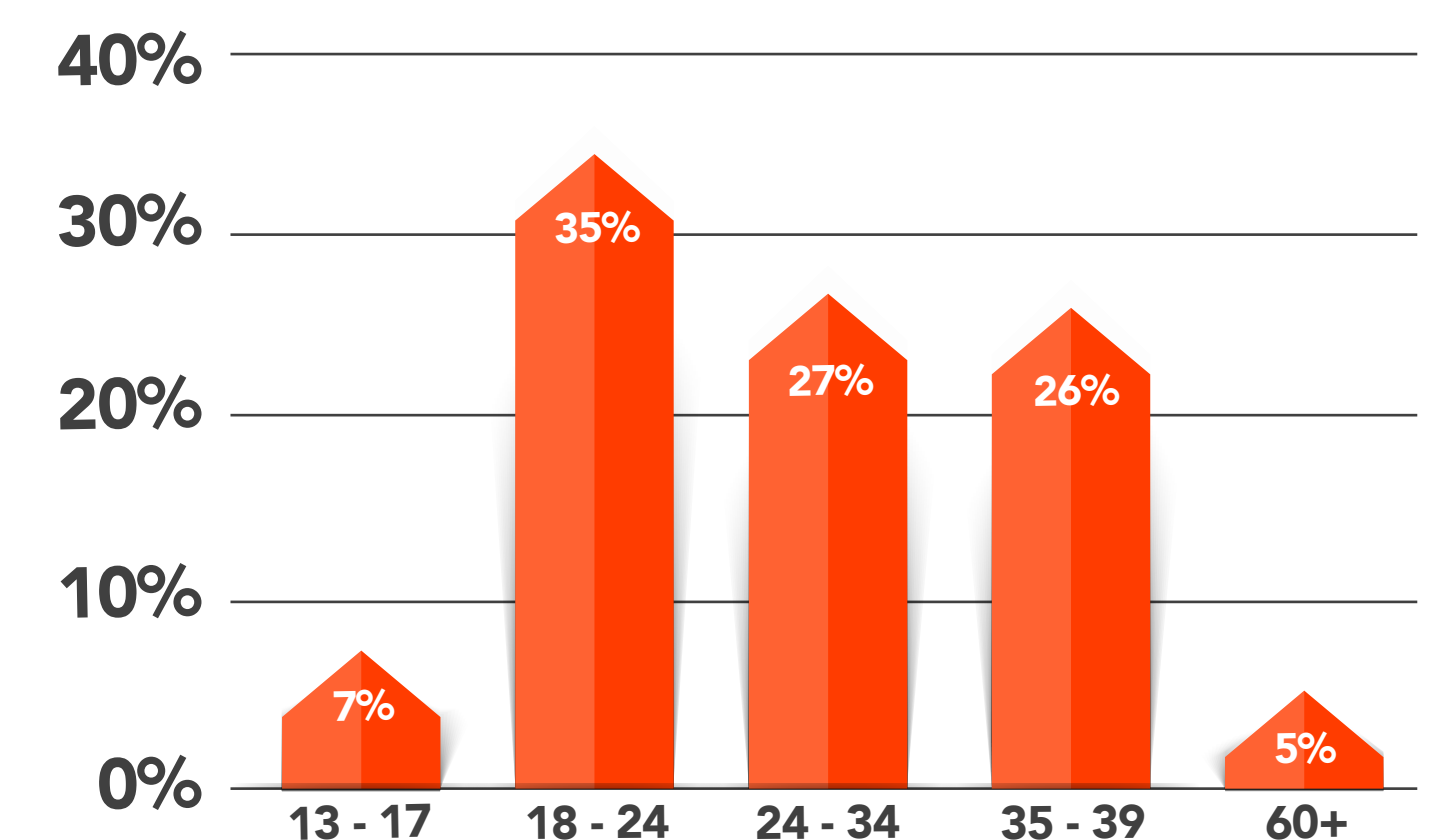
The final outcome of Brazil's political crisis is unpredictable. What we do know, however, is that efficiency-driving innovation will have its place, regardless of the market environment. Those entrepreneurs and investors who can thrive in a tough macroeconomic scenario are surely well-positioned for long-term success in the world's seventh-largest economy.



CORE BANKING CAPABILITIES AS LEVERAGE FOR GROWTH

The latest research on surveys across the local banking industry, reveals that smartphone transactions advanced from 20% to over 50% in six months. Reaching over 21 billion of all transactions done in 2015. The data is backed by the fact that internet penetration and democratization in Brazil was driven by smartphone accessible price range and combination of 4G network capability. Sales of smartphones overcame desktop and laptop sales quickly and drastically since 2012. Smartphones are now the only device at 50% of the populations disposal for internet access. Smartphones hold over 55% of the market share today, and will be over 60% by end of 2017. It has also been evident, that this penetration has reached every demographic, in terms of location and age.

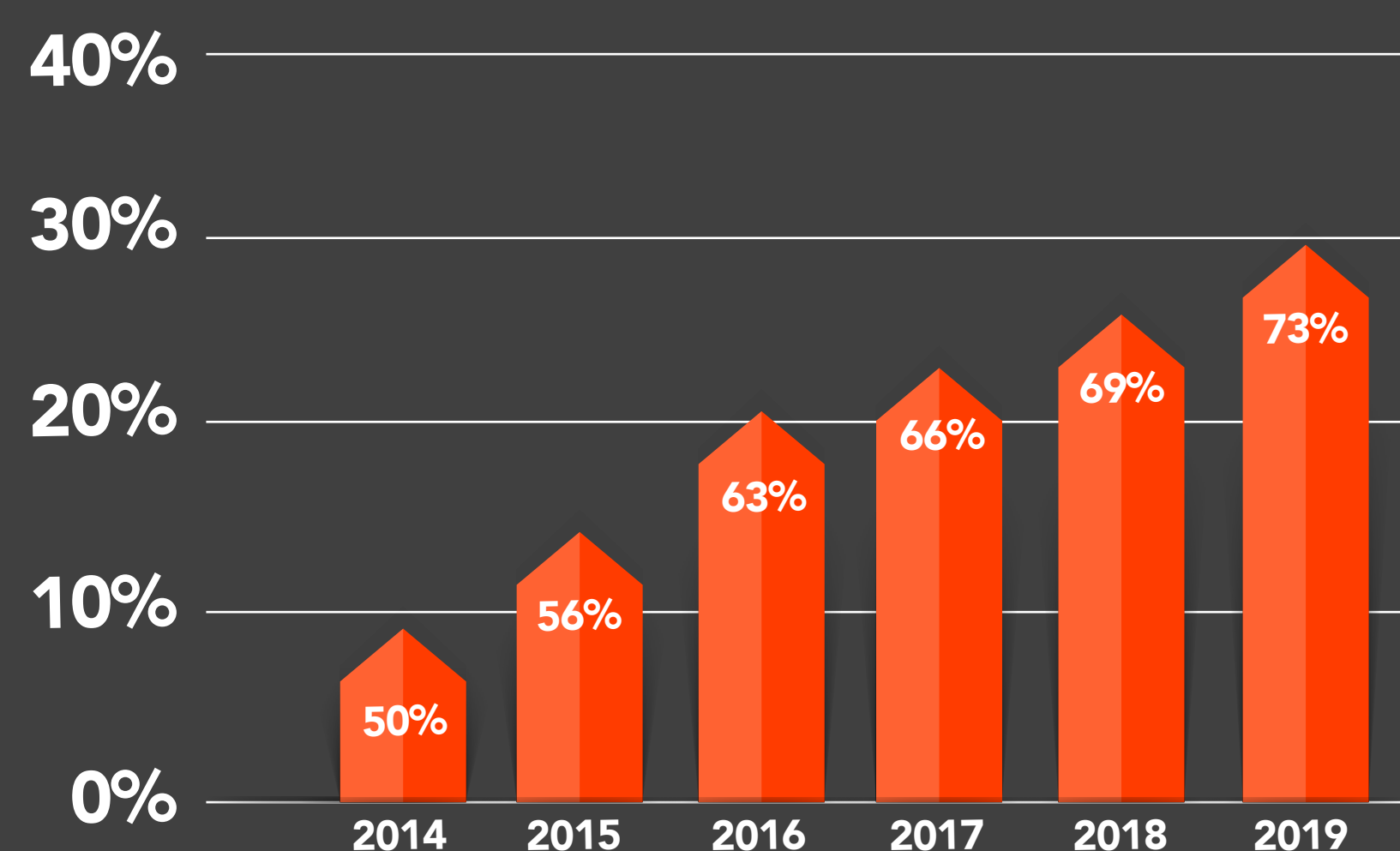
SMARTPHONE AGE DEMOGRAPHICS



CHAPTER 2

GROWTH OPPORTUNITIES

SMARTPHONE PENETRATION



WHAT IS THE FORECAST IN THE NEXT FIVE YEARS

THIS STATISTIC SHOWS THE DIRECT INVESTMENT POSITION OF THE UNITED STATES IN BRAZIL FROM 2000 TO 2014, ON A HISTORICAL-COST BASIS. IN 2014, THE U.S. INVESTMENTS MADE IN BRAZIL WERE VALUED AT APPROXIMATELY 70.46 BILLION U.S. DOLLARS.

The total direct position of the United States abroad amounted to 4.92 trillion U.S. dollars in 2014.

BRAZIL: GROSS DOMESTIC PRODUCT (GDP) PER CAPITA IN CURRENT PRICES FROM 2010 TO 2020 (IN U.S. DOLLARS)

The statistic shows the gross domestic product (GDP) per capita in Brazil from 2010 to 2014, with projections up until 2020. GDP is the total value of all goods and services produced in a country in a year. It is considered to be a very important indicator of the economic strength of a country and a positive change is an indicator of economic growth. In 2014, the estimated GDP per capita in Brazil amounted to around 11,920 U.S. dollars.



CHAPTER 2

GROWTH OPPORTUNITIES

ECONOMICAL FUTURE OF BRAZIL

As a member of economic organizations like the, G20, as well as the BRIC countries, Brazil has certainly made its mark as one of the strongest economies in the world. *Despite experiencing frequent economic fluctuations, the general direction of the Brazilian economy is mainly positive.* With recent improvements within the government, bank, and education systems, Brazil has become a more significant option for international investments.

Additionally, a profusion of natural resources, a strong agricultural and industrial sector, and a growing service sector has made investors more intrigued in the future of the country. Additionally, with the advent of presidential impeachment, consumer confidence saw a slight, however noticeable improvement, implying that individual financial situations and hope for the future are very present within the country, as the economic benchmarks point in a positive direction.

The current government is committed to its fiscal goals, and even though politics are still subject to many changes, the current presidency is aiming to decrease the size of the government, and is committed to privatization of many public owned services. In addition, the negotiations to allow more and more participation of the private sector in the infrastructure on all its levels.





CHAPTER 3

CHALLENGES AND OBSTACLES

Startups in Brazil face distinct setbacks compared to other Fintech markets around the world. In other countries, governments and banks make the launch and shutdown of a business faster and less expensive than the outdated and highly taxed Brazilian policies.

IN 2013, BRAZIL PARTICIPATED IN THE REGULATORY CONSISTENCY ASSESSMENT PROGRAM (RCAP), AN ASSESSMENT PROGRAM OF THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS), THAT EVALUATES THE DEGREE OF ADHERENCE OF PRUDENTIAL REGULATION OF A COUNTRY TO THE MINIMUM STANDARDS APPROVED BY BCBS AND ENDORSED BY THE GROUP OF 20 LEADING ECONOMIES. BRAZIL RECEIVED THE HIGHEST SCORE FOR CAPITAL REGULATION OF THE FINANCIAL SYSTEM.

Out of the 14 components evaluated, 11 were considered as "Compliant". The other components of the evaluation were considered "Largely Compliant". The RCAP, in conjunction with the Financial Sector Assessment Program (FSAP) conducted in 2012 by the World Bank and the IMF, confirmed that the Brazilian financial system was sound and resilient.



CHAPTER 3

CHALLENGES AND OBSTACLES

CREDIT RATING

Lately, the Brazilian government has been accused of a lack of control over public spending due to the sharp increase in lending by state banks, funded predominantly by public money. Analysts note that if public banks reduce their credit portfolios they will not need contributions from the National Treasury, which will improve control over public spending. As a consequence of uncontrolled lending by state-run financial institutions, Standard & Poor's has cut Brazil's credit rating to BBB-, citing fiscal deficit, fragile economic growth and the galloping rise in public banks' loan portfolio as the main reasons for the downgrade.

REGULATIONS

Like many governments around the world, the Brazilian government is not up to the speed of innovation or the adoption of new business models. Brazil has a long history of regulations due to its past of extremely high inflation and fast financial devices and instruments, which allowed a well-controlled and technologically advanced banking system. As an example, Brazil has been able to clear checks across banks in 12 hours since 1990, while many other countries have done this only in recent years. However, in Fintech, accounting, compliance and legal counselling have a high worth, and business models must meet its restrictions and conditions before stepping on the gas pedal. Entrepreneurs may or may not be savvy about the appropriate regulations that are implied in a given business. **So once an idea, business case and model are in place, the activity to evaluate, assess and determine risks against the rules and restrictions is compulsory.** In some scenarios, opportunities may be found to advance and enhance the model to improve revenues, and in others, the limitations may imply higher costs to comply with mandatory matters. This process may also provide insights into which category or categories the business fits into, which may require partnership with banks and insurance businesses, or particular licenses to operate in the market.



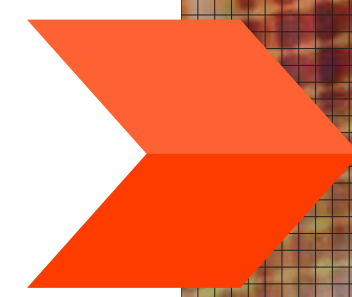


CHAPTER 3

CHALLENGES AND OBSTACLES

TAXES

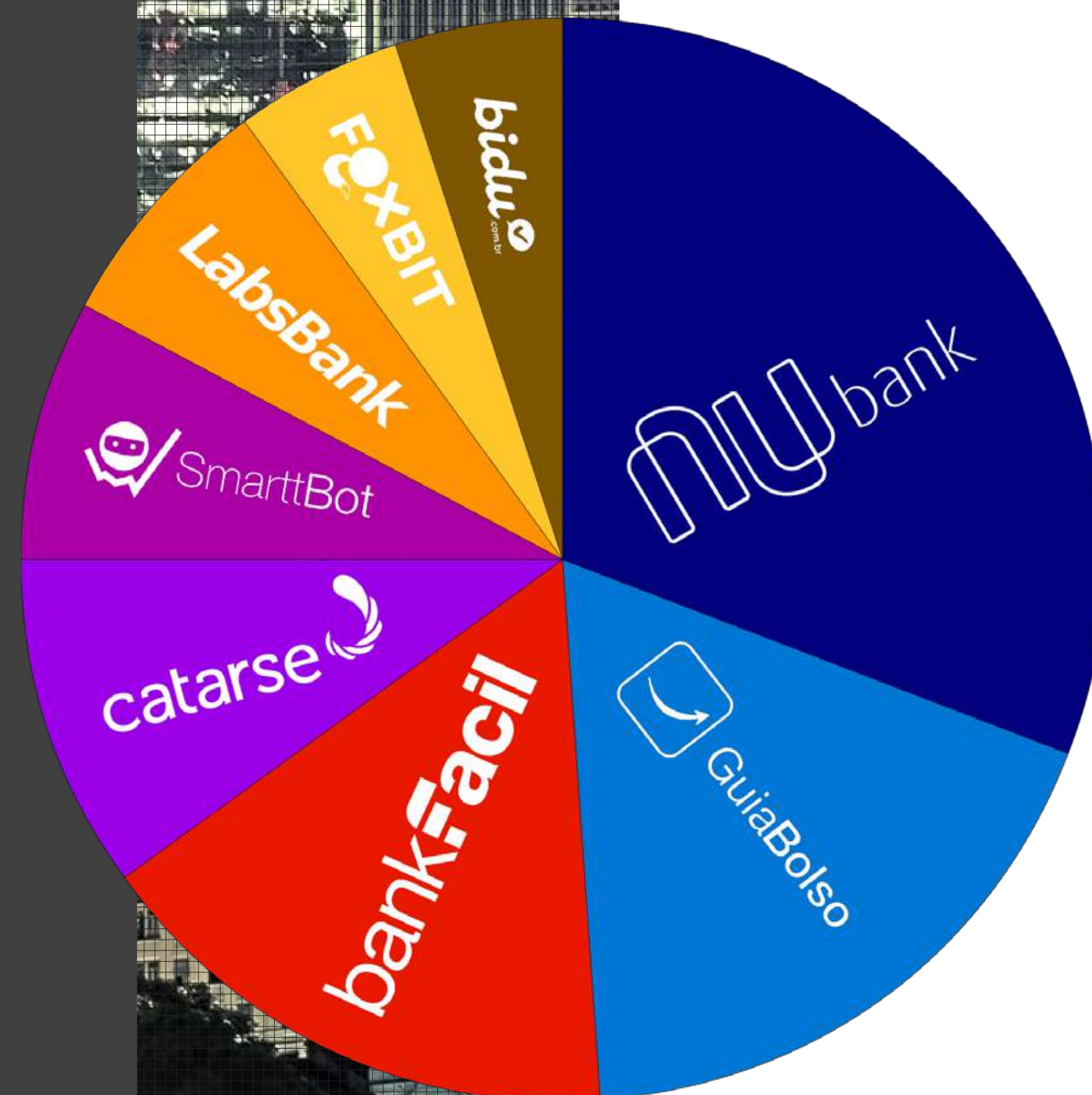
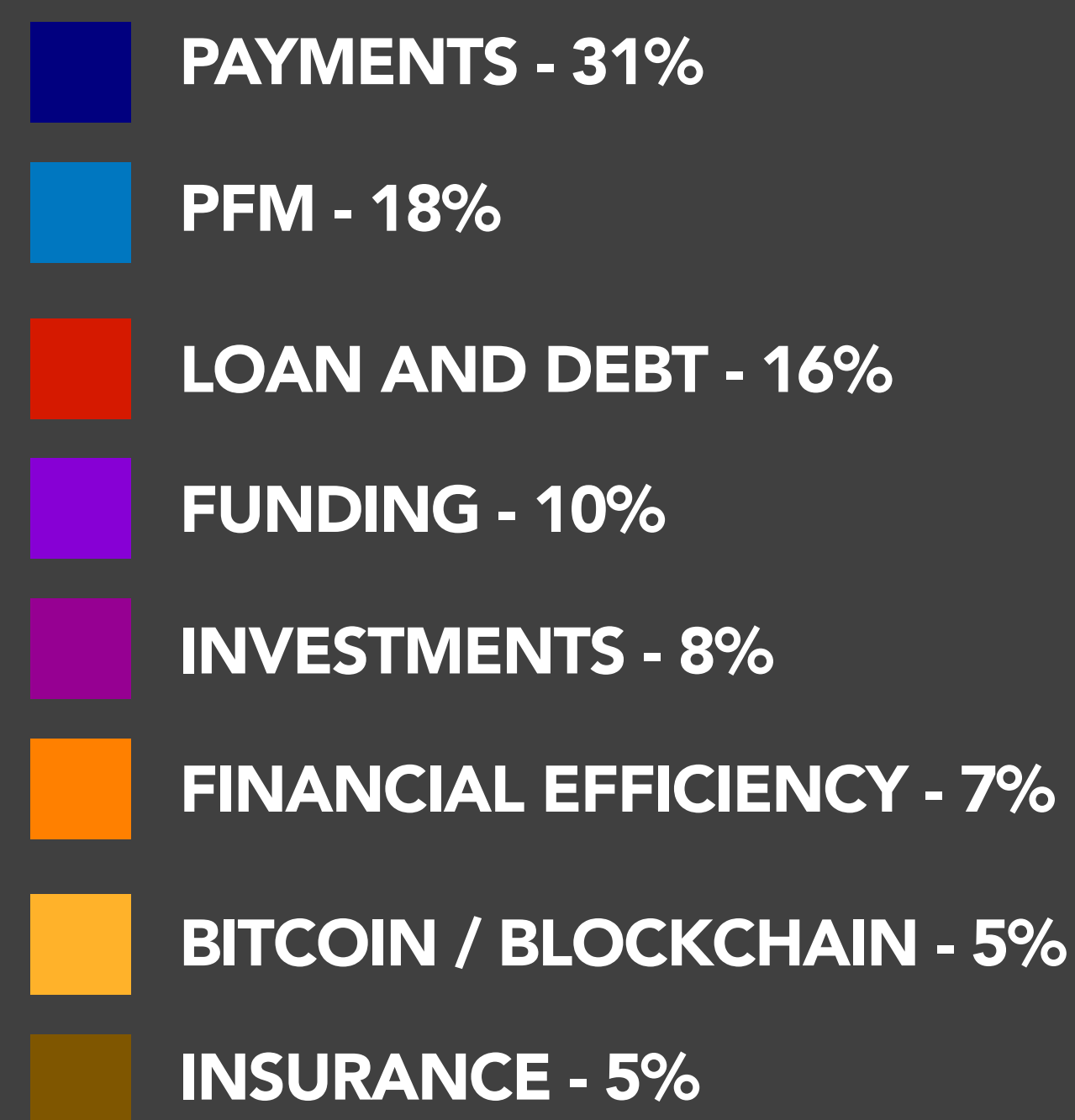
Brazil has some of the most complex and bureaucratic taxation policy. These policies vary depending on the town, the consumer, and who is offering services. All of this accompanied with manual calculations and processing on collecting and paying all dues. Taxes are so challenging that medium and large companies have a dedicated team of accountants to manage the processing within the highly complex set of rules. If taxes can be a drag in your business, it can also be an enabler for improved revenue, tax breaks and other benefits. Thus having a good accounting expert on Brazilian taxes system is also fundamental piece for the success or failure of a Fintech venture.



CHAPTER 4

FINTECHS IN BRAZIL

As of today, there are 8 major sectors of action from the Fintechs identified, even though these are subject to review in the next few months. Currently, it is recognized that new sectors are forming, as innovative and disruptive models are entering into the market specific to the Brazilian characteristics and features. The heavier concentration of the 150+ Fintechs are in the Payments sector, with 31%.



PAYMENTS

Fintechs involved in Payments are businesses which offer a diversity of payment methods around B2B and B2C solutions, such as acquiring payments, payment infrastructure and physical payment devices, (Cards and POS systems). It is in the trenches of payment solutions to e-commerce, gateways, clearing house services, direct deposits and Mobile POS, at the B2C models, Mobile Wallets, Credit Card aggregators, credit cards, debit and prepaid cards, composed with innovative and disruptive models and partnering with banks. The leader in that space is definitely Nubank, with a great success across the entire country.

Nubank - www.nubank.com.br

CHAPTER 4

FINTECHS IN BRAZIL

A fully digital credit card issuer and service provider, with low interest rates compared to other Brazilian issuing banks, without annual fees, and no late payment fees, successfully launched in September 2014. Nubank appeals to young users it's easy interface and mobile app which allow them to follow up on transactions and take action in real time. Nubank is disrupting local banks, and has already set a new level for the competition.

FINANCIAL MANAGEMENT

Financial Management Fintechs main purpose is personal and business financial management. This includes integrating to multiple banking and financial systems to consolidate data, spending controls and goals, mileage programs, benefits, or even fiscal, accounting and budget management, payroll, and invoicing. GuiaBolso has established itself as a leader because of its easy to use integration services to Internet Banking systems, aggregating and enabling the vision of all financial life of its customers.

GuiaBolso - www.guiabolso.com.br

The solution allows 100% financial control in an automatic and free service, in exchange of personal data. This personal data can then be leveraged by other financial institutions for credit scoring and applications, as it is the only solution that has the view of the customer financial life as whole. It also has some of the best engines for categorizations of spending, simplified UI with relevant information, as well as goal settings per categories. GuiaBolso has over 2 million users, and has disrupted banks in the PFM space, because of its ability to integrate all finance information in one place.

LOANS AND DEBT

This sector has been adding a lot of innovation by helping customers to obtain loans, through social, bureaus and endpoint smartphone device features, reaching end user consumers and businesses. Peer-to-peer loans for businesses and people for educational, housing and guaranteed loans, micro financing, data analysis,

CHAPTER 4

FINTECHS IN BRAZIL

classification of products according to the loan needs, collections, renegotiation of debt and settlements. BankFácil started back in 2011 with over BRL 100 million lent to its customers.

BankFácil - www.bankfacil.com.br

Firstly, established as a platform for loans and then moving into a full digital service to end consumers, BankFácil's business model is based on guaranteed loans in order to help their customers fulfil specific dreams and objectives, like financing their education, or buying a car or a house. BankFácil collects information about the customer's day-to-day life, and their dreams and objectives, in order to lower interest rates and risk, delivering lower interest on loans. The approach with the customer

experience has been a true differentiator, helping people to learn how to manage their finances to meet their instalments and achieve their goals.

INVESTMENTS

Companies that propose new ways to invest money and assets by analysing and managing existing investments, recurring applications, investing based on algorithms of ranked investors styles and decisions and crowdsource of knowledge and expertise on investment portfolios. Smarttbot was founded on 2011 with the mission to democratize the access to automated investing in Brazil.

SmarttBot - <https://smarttbot.com/>

Delivering a new way to invest at the BM&FBOVESPA, by following guidelines, strategies, and following up on historical information, allows multiple robots to be configured and executed at the same time on the same stock, via mobile or desktop. This allows users to follow up other investors and copy their strategies to their own robots.



CHAPTER 4

FINTECHS IN BRAZIL

FUNDING

Services that allow crowdfunding for products, social causes and creative projects. Equity crowdsourcing has been allowing private sector business to raise capital in exchange of their own assets and investors to participate in the private assets of the markets. Catarse is fully open source and the first in its sector for crowdfunding as a platform for project showcase and social integrations for marketing since 2005, with over 300,000 people investing in ideas and projects, 2,715 projects financed and BRL 46 million donated to projects.

Catarse - <https://www.catarse.me>

Catarse originally started on assessing projects prior submission, guiding users on how to improve their projects and the information prior placing on their vitrine, now they have released Flex, which is a tool to guide users and go straight into campaigning, with different modalities, that diversifies how fund can be captured and when to withdraw the program.

INSURANCES

This sector has recently grown and its core activity has been enabling the insurance marketplace by connecting consumers and insurers and brokers, comparing prices and different policies, simulations, profiling, applications, contract and support across the platform. Bidu is one of the first insurance shops for insurance quotes, and is the Fintech with highest investment so far.

Bidu - www.bidu.com.br

Bidu has a smart form and collects information to be supplied to its partners that respond with on demand, online quote. It makes the trivial chat with brokers quick and simple, giving coverage to all sorts of profiles, with online support, reaching all the country with a best-in-class set of partners. Bidu is currently providing insurances for cars, cell phones, motorcycles, home and travel.

CHAPTER 4

FINTECHS IN BRAZIL

BITCOIN & BLOCKCHAIN

Sector dedicated to cryptocurrencies and the possibilities of the blockchain architecture within banks and financial services. Buy and sell, mining and other cryptocurrencies, which also includes transactional services in a decentralized manner at the blockchain platform.

Foxbit - <https://foxbit.com.br/>

Foxbit trades bitcoins, simply buying and selling, however their sweet spot is the fact that they are the fastest trader in the market. Supporting customers that want to act quickly on bitcoins, they are up to meet that challenge. Besides being the trader with the highest liquidity in Brazil, fully transparent and proofed custody of all the bitcoins they own and transact, they are insured with the standard banking insurances that cover up to BRL 250 thousand.

FINANCIAL EFFICIENCY

Initiatives that are related to solutions that help companies that deal with the financial market, being Fintechs or not. Some solutions provide APIs, white-label, data analytics and BigData, as well AI algorithms for data and transaction protection, identity verification and fraud prevention. Labsbank was founded in 2015, with its main objective to allow developers to build secure transactions and handling customer data.

LabsBank - <http://labsbank.com.br/>

LabsBank has been established as a platform for Fintechs, which allows integration of balances, statements, bills, transfers and so on, however in an agnostic fashion allowing the employment of many different devices to be used in the context of a banking transaction, such as wearables, smart TVs, cars, and so on. Thus enabling banks and Fintechs to exchange data and services to meet new models and ways to service customers.



CHAPTER 4

FINTECHS IN BRAZIL

RETAIL ALLIANCES, UNEXPLORED SECTOR

Going beyond, Fintechs have not yet tapped a key instrument provided by the Central Bank regulation and Banking Federations, which is the Retail Alliances modality. Retail Alliances are front-end businesses such as merchants, stores, cafés, etc, dealing with customers face-to-face on processing a number of banking functions on behalf of a partnered bank. Account Opening, Payments, Collections, Withdraws and Insurances. Thus getting Fintechs with friction reduction and user experience, while intermediating with banks. Since the 2000s many innovations have taken place for offline merchants, as it generated cross-selling and credit card approvals, but digital innovation has many opportunities on being explored.





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FORECAST FOR THE MARKET

The Brazilian market has recently had a positive forecast as it adjusts its fiscal goals with more clarity on the directions of the new government in regards to policies at the social, economic and planning levels. Volatility and uncertainty in the domestic and external environment are reasons to retract on investments, as the current scenario is optimistic, and according to Brazilian investors it is a great time to review strategies to invest in Brazilian stocks and niche markets, such as Fintechs. The forecast for second and third quarter of 2016 is up for stocks and financial markets in order to meet the late movements of the US Dollar (BRL 4,20 to BRL 3,40) and interest rates. Brazilian stocks have not follow the external scenarios of interests and should improve in the second semester.

INCREASE CONFIDENCE

There is an expectation that a next wave of investments will be coming from foreign investors due to an increase in confidence perceived as political volatility and inflation are becoming more stable. This optimism, particularly in Brazil, is

because of the fact that even if the Federal Reserve in the USA increase interest rates up to 0.25% twice in 2016, it changes very little the attractiveness of investors. Low interest rates all around the world, with the improvements on commodities compared to February 2016, the improvement in the consumer's confidence in entrepreneurs and Brazilian population in general, signals that the country may be close to a new cycle.

The GDP on the other hand, is impacted by unemployment and credit defaults, which will remain a challenge in the next months. However, investors should be looking to the fact that

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confidence from entrepreneurs, consumers and industry, have stopped falling. Additionally, they should be looking at the fact that new ventures, partnerships and financial services are happening right now.

Entrepreneurial confidence has actually increased in the second quarter of 2016, as the crises have set a tone for great opportunities in support of the new demands that these market conditions are imposing. Additionally, entrepreneurial confidence is improving based on the fact that taking chances on winning markets, getting ahead of competition by establishing new models and organizations, the need for appropriate banking and financial services to specific niches, is evident.





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INDEXES

Adding on top, there is data that certifies the confidence on the economy. At the last inflation index, results were a bit worse than expected, but implicit inflation composed by the differences of the interest rates, the inflation expectation for the next years has dropped significantly in the last few months, being in the 6.5% and 7% percentile, which is an understanding that the market has taken out of the price a disaster, and this is a very positive condition.

Looking at the US Dollar, Ibovespa and Interest Rates, only the Ibovespa has a worse performance, staying between de 48,000 and 52,000, which is a hint that Ibovespa is really cheap right now, and looking at the valuation of the assets, it confirms the hypothesis.





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BANKS ARE FEELING PRESSURE

The three largest private sector banks in Brazil will focus on tighter cost controls, enhanced cross-selling initiatives and increased fee income to manage the challenging economic environment in Brazil. It's expected this pressure to remain on the banks until 2017. The biggest private-sector Brazilian banks have mostly exhausted the strategies they used to manage 2015's downturn, including repricing their loan portfolios, improving collateral coverage and reducing exposure to lower credit borrowers while expanding their excess loan loss reserves. **In 2016 the challenge will be to offset lower business volumes, to absorb expected rise in retail lending delinquencies and the prospect of an unprecedented rise in corporate credit defaults.** The main generators of fee income are often account service fees and credit card fees.

Itau Unibanco's 2016 guidance for its credit portfolio growth ranged between -0.5% and 4.5%, while fees and

commissions ranged between 6% and 9%. Banco Bradesco's guidance was in the same range.

Loan growth in 2016 should be close to, or below, inflation, according to the banks management teams.

Cost-cutting initiatives vary from bank to bank but usually include laying off middle management executives, reducing bonuses, downsizing business units (particularly investment and corporate banking, equities sales and brokerage) and renegotiating office rents and service contracts.

Increased cross-selling to existing clients rather than acquiring new ones has been one of the most common strategies to raise revenue and contain credit costs.

Investing in IT, focusing on digital banking and expanding each bank's foothold in the credit card business aim to leverage the importance of non-credit revenues and expand profitability per client. Digital banking would lower overall fixed costs while overhead should decline as the traditional model of physical branches is eventually eclipsed by digital platforms.

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A NEW WAY TO REMAIN IN THE BUSINESS

In the last encounter of banks with IT partners, Fintechs were invited to the CIAB 2016 (Brazilian Banking and Information Technology Congress) which made a small but significant change to its 26th edition. Bankers realized how late they were and are in the game of innovation. Additionally, banks realized they are unable to handle the disruption ahead and transform their personal beliefs, culture, organization and technology, to be true competitors in that space, where consumers rule, not banking products.

Fintechs have been responding to this with absurd figures, over 74% of banking consumers in Brazil are using one, two or more Fintechs already, and this number is only increasing. Also great investment in user

experience at banks has demonstrated low conversions of cross-selling, fidelity and increase in overall profits. Thus banks realize they need to find their roles within society, and quickly, because Fintechs are taking their share, and fight back within this ecosystem will cause more injury rather than returns.

CIAB 2016 hosted 9 Fintechs, which were selected amongst the 140+ running in Brazil, and this event allowed them to set a foot into the mainstream of financial services, as allies rather than threats. The winners get to sit at the table with other banks to discuss and evolve partnerships. Even though many are part of the InovaBRA, what matters is that this event with this peculiar agenda, came to transform how the banking industry set a foot into the post-Digital era.

Therefore, banks may start to join forces with Fintechs in 2016, instead of fighting back the disruption caused by Fintechs, they may, open their systems as platforms and become intermediary solutions for Fintechs innovations.

Thus the opportunities to take action on creating, enabling and partnering with a Fintech despite the challenges within the economy, is highly rewarding and exciting, with great potential.





ABOUT US

Nobiletec is a multi-national consultancy firm focused on generating revenue for our clients. As a premiere open innovation partner, Nobiletec specializes in B2B, B2C and P2P Startup Tech solutions.

Our clients experience a competitive advantage from our 20 years of combined experience in the Fintech industry and deep industry connections.

NOBILETEC PROVIDES:

FINTECH INVESTMENT ADVISORY

Our knowledgeable team is fully dedicated to optimizing strategic relationships with companies in the Fintech sector. Our deep industry connection and comprehensive industry expertise assists interested parties in investing, partnering with or acquiring digital companies. As a partner, we work alongside investors throughout every stages, from seed to buy-out.



ABOUT US

BUSINESS STRATEGY CONSULTANCY

Our combined years of experience in the Fintech industry allow us to carve the most effective path possible for our clients. Our deep connections and knowledge enable our clients to overcome challenging regulations and legal requirements. Our tactical guidance and informed evaluations provide the effective planning and organization your business needs in this complex industry.

BUSINESS DEVELOPMENT SERVICES

We know planning is essential, but execution is paramount. We invest in our client's progression in the industry and provide proven methodologies and guidance for achieving success. We are there for our clients providing guidance and support throughout the entire growth process.

Our four pillars approach (deep market knowledge + strong network + tireless work + full transparency) enables partners to make better-informed decisions.



ABOUT US

WHY US

Adaptability: customized services to meet your needs.

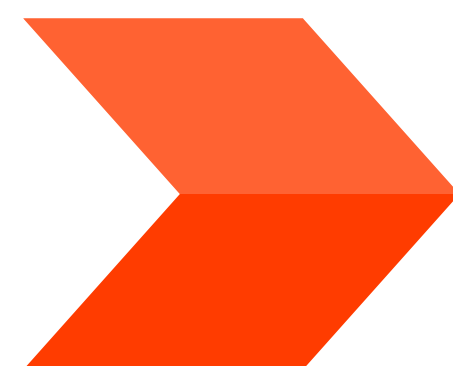
Flexibility: low operational costs reduce initial investments.

Globally Minded: local market insight in 4 continents.

Consistency: expectations are met and exceeded.

Integrity: honesty is at the forefront of our business model.

Expertise: over 20 years of Fintech knowledge at your disposal.





ABOUT US

**MEET THE TEAM – EXPERIENCE – NETWORK
CONNECTIONS – HARD WORK – RESULTS**

Richard Hechenbichler

Richard is a Digital Transformation, Consulting and Executive Leader with over 20 years of experience in multinational organizations in banking, insurance, and finance. He acts as a business innovator with disruptive ideas in the Digital space, with a strong drive to build Visions and Strategies. He has a proven track record for success and expertise in Digital Transformation & Capabilities, Product Management, Architecture, Project Management, Financial Management, Delivery Management and Technology.



ABOUT US

MEET THE TEAM – EXPERIENCE – NETWORK CONNECTIONS – HARD WORK – RESULTS

Marcello Mello

Marcello is a consulting and senior Executive with an accomplished two-decade career. He possesses a unique combination of experience in finance, innovative technologies, business development and commercial areas spanning across several countries. In the last six years, he has creatively initiated new businesses and helped startups to discover their goals, define and execute tactical strategies, and discover their true potential.




ABOUT US

MEET THE TEAM – EXPERIENCE – NETWORK CONNECTIONS – HARD WORK – RESULTS

Wayne Brown

Wayne has over three decades of experience in the financial services and technology industries. He has focused his advisory practice on collaboration with banks and Fintech companies to identify opportunities for process improvements, the development of new products and/or the identification of new partners. Wayne is also a public speaker who continues to present on banking and Fintech topics to both bankers and technology professionals.



Success

Solution

Business Strategy

Innovation
Branding
Solution
Marketing
Analysis
Ideas
Success
Management

ABOUT US

HOW CAN WE HELP?

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